

COMPANY PROFILE

Lockheed Martin Aeronautics Company

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COMPANY OVERVIEW

Lockheed Martin Aeronautics (LM Aero) designs, develops, manufactures, sells and supports advanced military aircraft including air mobility, combat, and reconnaissance and surveillance aircraft. Its major products include C-130J Super Hercules, F-16 Fighting Falcon, F-22 Raptor, C-5M Super Galaxy, F-2, F35 Lightning II and P-3 Orion. The company also provides unmanned air vehicles and related technologies. The company also offers modification, maintenance, repair and overhaul (MMRO) services including system integration, sustainment, support and upgrade for the aircraft. The company's customers include military services and agencies of the US Government. Its business operations are spread across Palmdale, California; Marietta, Georgia; Greenville, South Carolina; Fort Worth and San Antonio, Texas; and Montreal, Canada. The company operates as a major business unit of Lockheed Martin Corporation. LM Aero is headquartered in Fortworth, Texas, United States.

KEY FACTS

Head Office	Lockheed Martin Aeronautics Company 1 Lockheed Boulevard Fort Worth Texas Fort Worth Texas USA
Phone	1 817 7772000
Fax	
Web Address	www.lockheedmartin.com/us/aeronautics.html
Revenue / turnover (USD Mn)	15,570.0
Financial Year End	December
Employees	25,000
Ticker	

BUSINESS DESCRIPTION

LM Aero is involved in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. The company provides its products and services through various government programs.

LM Aero's major programs include F-35 Lightning II Joint Strike Fighter, C-130 Hercules, F-16 Fighting Falcon, F-22 Raptor and C-5M Super Galaxy.

F-35 Lightning II Joint Strike Fighter program is the single largest global defense program, under which the company produces an 'affordably stealthy' multi-role fighter with three variants, namely, F-35A conventional takeoff and landing (CTOL) for the US Air Force; F-35B short takeoff/vertical landing (STOVL) for the US Marines, British Royal Navy and others, F-35C conventional carrier-launched version for the US Navy. The development of F-35 program is expected to be completed in 2017. The production of the aircraft is expected to continue for many years, based on the US government's objective of maintaining current inventory of 2,443 of all three variants of F-35 aircraft for the Air Force, Marine and Navy.

The F-16 Fighting Falcon is a low-cost, combat-proven, international multi-role fighter. The company produces F-16 aircraft for foreign governments under the foreign military sales (FMS) process and through direct foreign government sales. It also provides service-life extension and other upgrade programs for its customers' F-16 aircraft. The aircraft has been selected by 26 countries, and the company has produced 4,500 units by August 2013.

The F-22 Raptor is an air dominance and multi-mission stealth fighter. LM Aero provides modernization and sustainment activities for the US Air Force's F-22 aircraft fleet. The modernization program includes upgrading existing systems requirements, developing new systems requirements, and adding capabilities and enhancing the performance of the weapon systems. Under the sustainment program, the company provides sustainment of weapon systems of the F-22 fleet, training systems, customer support, integrated support planning, supply chain management, aircraft modifications and heavy maintenance, systems engineering, and support products.

C-130J Hercules is an international tactical airlifter. Under this program, the company produces and provides support and sustainment services for the C-130J Super Hercules and upgrade and support

services for the legacy C-130 Hercules worldwide fleet.

C-5M Super Galaxy is a modernization of the C-5 Galaxy, a strategic airlifter. Under the program, the company provides support services for existing C-5A/B/C/M Galaxy fleet, and modernization of Galaxy aircraft to the C-5M Super Galaxy configuration. Its major activities include installation of new engines, landing gear and systems, and other improvements that enable a shorter takeoff, a higher climb rate, an increased cargo load, and longer flight range.

LM Aero is also involved in advanced development programs known as Skunk Works. Skunk Works focuses on future systems, including unmanned aerial systems and next generation capabilities for advanced strike, intelligence, surveillance, reconnaissance, situational awareness and air mobility. The company is involved in numerous network-enabled activities that allow separate systems to work together to increase effectiveness, and continue to invest in new technologies to maintain and enhance competitiveness in military aircraft design, development, and production.

The company's major customers include military services and government agencies of US and other countries. The company's operations and production facilities are located in Clarksburg, West Virginia; Greenville, South Carolina; Johnstown, Pennsylvania; Marietta, Georgia; Meridian, Mississippi; Palmdale, California and Pinellas Park, Florida.

HISTORY

The company designed the F-35 Lightning II, a 5th generation tactical combat aircraft.

The company received a US\$3,500 million contract from the US Department of Defense to manufacture 31 F-35 Lightning II stealth fighters in the fourth lot of low-rate initial production (LRIP).

The company launched the nation's third Littoral Combat Ship (LCS), 389-foot Fort Worth, at the Marinette Marine shipyard.

Lockheed Martin opened a branch in the Saudi Arabia.

The company received orders from the Republic of Korea to procure F-35 Lightning II aircraft for its F-X fighter acquisition program.

The company's Kelly Aviation Center, a provider of aircraft engine maintenance, repair, and overhaul for international commercial and military customers, changed its name to Lockheed Martin Commercial Engine Solutions (LMCES).

Lockheed Martin demonstrated its prototype Area Defense Anti-Munitions (ADAM) ground-based laser system against maritime targets.

The company launched the WorldView-3 commercial remote sensing spacecraft.

The company opened the Surface Navy Innovation Center (SNIC), to provide support for developing new technologies for the US.

The company secured a contract from the US Airforce, to manufacture Paveway II Plus Laser Guided Bomb (LGB) kits.

The company secured a contract from the US Department of Defense, to manufacture 43 F-35 Lightning II aircraft.

The company secured a contract from the US Army, to provide 64 Apache helicopter Modernized Target Acquisition Designation Sight/Pilot Night Vision Sensor (M-TADS/PNVS) system

The company secured a contract from the US Army, to upgrade the Army Tactical Missile System (ATACMS).

The company's four facilities were recognized with 2015 James S. Cogswell Outstanding Industrial Security Achievement Awards by The Defense Security Service.

The company awarded a contract to CPI Aerostructures to build lock assemblies for the F-35A

conventional takeoff and landing variant aircraft.

The company launched unmanned aircraft systems traffic management system to help drone operators and pilots to be aware of each other's location.

The company secured a contract worth US\$4.6 million to develop a maritime canister-launched small Unmanned Aircraft System.

The company was awarded a US\$ 914 million contract by The US Department of Defense to upgrade Singapore's fleet of F-16 aircraft.

The company entered into a long-term research collaboration with MIT, in which focus on innovations needed to enable generation after next autonomous systems.

The company's subsidiary Sikorsky signed a 10-year support agreement for S-92 helicopter with Babcock.

The company opened Advanced Pilot Training facility in Greenville, South Carolina.

The company's subsidiary Sikorsky announced the sell of Sikorsky S-76D helicopter to Fig Air Inc.

The company entered into a partnership with Derco Repair Services, Inc., to expand its Global Supply Chain Services and support to F-16 operators worldwide.

The company secured a contract to offer missile defense sensor for US Army's LTAMDS programme.

The company secured a contract from the US Navy to provide solutions to Surface Electronic Warfare Improvement Program (SEWIP).

The company secured a contract worth US\$148.9 million for full rate production of Surface Electronic Warfare Improvement Program (SEWIP) Block 2 systems.

KEY EMPLOYEES

Name	Job Title	Board
John Losinger	Media Center - F-2, F-16, F-22, T-50 Programs	Senior Management
Johnny Whitaker	Media Center - Marietta Site	Senior Management
Ken Ross	Media Center - Fort Worth	Senior Management
Melissa Dalton	Media Center - Advanced Development Programs	Senior Management
Mike Rein	Media Center - F-35 Programs	Senior Management
Orlando P. Carvalho	Executive Vice President	Senior Management
Stephanie Stinn	Media Center - C-130 Programs	Senior Management

MAJOR PRODUCTS & SERVICES

Lockheed Martin Aeronautics Company designs, develops, manufactures and supports advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. The major products and services offered by the company include the following :

Products:

C-130J Super Hercules

F-16 Fighting Falcon

F-22 Raptor

T-50 Golden Eagle

A-10 Thunderbolt II

Aerial Reconfigurable Embedded System (ARES)

Hybrid Airship

K-Max

LM-100J

MH-60R

T-50 Multirole Trainer

C-5M Super Galaxy

F-2

F-35 Lightning II

P-3 Orion

U-2 Dragon Lady

Services:

Aviation Services

Engine Services

Modification, Maintenance, Repair and Overhaul

SWOT ANALYSIS

Lockheed Martin Aeronautics Company (LM Aero) is a developer and manufacturer of advanced military aircraft including air mobility, combat, and reconnaissance and surveillance aircraft. Strong financial performance, leading market position, involvement in major defense programs, high order backlog and manufacturing capabilities are the company's main strengths, whereas inability to manage cost overruns of major program remains as a major concern area. In the future, changing technology, reduction in the US defense spending and government contract compliance could affect its business operations. However, growing global defense spending, focus to strengthen the US homeland security and rising demand for unmanned aerial vehicles could provide growth opportunities to the company.

Strength Leading Market Position Involvement in Major Defense Programs Manufacturing Capabilities Strong Financial Performance High Order Backlog	Weakness Inability to Manage Cost Overruns of Major Program
Opportunity Growing Global Defense Spending Rising Demand for Unmanned Aerial Vehicles Focus to Strengthen the US Homeland Security	Threat Changing Technology Reduction in the US Defense Budget Government Contract Compliance and Regulations

Strength

Leading Market Position

LM Aero is the global leader in building high-performance military aircraft across the world. The company's products are primarily designed for the US defense. Apart from the domestic region, LM Aero provides its products in more than 65 other nations. One of the finest military aircraft of the company includes the 5th Generation fighters, F-35 Lightning II and F-22 Raptor. It also provides the proven and affordable fighter, the F-16 Fighting Falcon; and the versatile airlifter, the C-130J Hercules. The company's F-117 Nighthawk was the first operational fighter designed by using with stealth technology. In FY2015, the company generated 72% of its total revenue from the US government and 28% from international customers. The company also operates as one of the major business units of Lockheed Martin Corporation, a leading partner of the Federal government. Therefore, leading market position helps LM Aero in retaining its customers.

Involvement in Major Defense Programs

The company's participation in various government defense programs strengthens its competitiveness.

LM Aero provides products and services for various programs such as F-35 Lightning II Joint Strike Fighter, C-130 Hercules, F-16 Fighting Falcon, F-22 Raptor and C-5M Super Galaxy. The F-35 program is the largest program that comprises a development contract and multiple production contracts. In FY2015, the program accounted for 59% of the company's total revenue. Under the C-130J Super Hercules program, the company produces and provides support and sustainment services for the C-130J Super Hercules. It also provides upgrades and support services for the legacy C-130 Hercules fleet across the world. In FY2015, the company delivered 21 C-130J aircraft including one to international customers. Under the F-16 Fighting Falcon program, LM Aero produces low-cost, combat-proven, international multi-role fighter for international customers. It also provides modernization, service life extension and other upgrade services for F-16 aircraft. In FY2015, the company delivered 11 F-16 aircraft. Under the C-5M Super Galaxy program, the company provides sustainment services for the C-5 Galaxy fleet. It also offers modernization activities to convert 49 C-5 Galaxy aircraft to the C-5M Super Galaxy configuration. As of December 31, 2015, the company delivered 29 C-5M aircraft under modernization activities, including nine C-5M aircraft delivered in 2015. Involvement in major programs improves its technical capabilities and product line, which could result in improved bottom line performance.

Manufacturing Capabilities

LM Aero's manufacturing capabilities help the company to serve a wide customer base. The company designs, develops, manufactures, sells and supports advanced military aircraft including air mobility, combat, and reconnaissance and surveillance aircraft. The company operates through nine locations across the US and several international offices. Its three major facilities include Lockheed Martin Aeronautics Company - Pinellas, Lockheed Martin AeroParts, Inc. (LMAPI)- Johnstown and Lockheed Martin Aeronautics site in Marietta, Georgia. Lockheed Martin Aeronautics Company - Pinellas facility is modern 200,000-square-foot facility located in Florida. It focuses on metal forming, fabrication and assembly of components and supports many programs including the F-16, C-130J and C-5. LMAPI, a subsidiary of Lockheed Martin Corporation, it primarily focuses on manufacturing and assembly operations and supports the F-16, C-130, U-2 and F-22 programs with new production and spare parts. Similarly, the Marietta facility focuses on avionics and engine modernization programs for the C-5 Galaxy strategic transport, P-3 Orion program operations, including the new wing production line and the center wing assembly for all three variants of the F-35 Lightning II. The Greenville facility specializes in original equipment manufacturer (OEM) sustainment services and engineering support, parts management and logistics services. Strong manufacturing capabilities provide the company a competitive edge over its peers.

Strong Financial Performance

Lockheed Martin Aeronautics Company delivered an impressive financial performance during FY2015. The company's revenue increased by 4.7% from US\$14,920 million in FY2014 to US\$15,570 million in FY2015. This was primarily due to increase in the sales of F-35 production and C-5 program. The increase in the sales of F-35 production is due to increased volume on aircraft production and sustainment activities. The increase in the sales of C-5 program is due to increase in the deliveries. The company's operating profit increased by 2% from US\$1,649 million in FY2014 to US\$1,681 million in FY2015. Strong financial performance helps the company maintain its stand in the market and enables it to pursue its growth and expansion plans.

High Order Backlog

LM Aero has a considerable order backlog, which ensures strong revenue performance. At the end of FY2015, the company had total order backlog of US\$31,800 million showing an increase of 15.2% compared to US\$27,600 million at the end of FY2014. This was primarily due to higher orders secured for the F-35 and C-130 programs. Strong order backlogs help it further enhance its position in the market, by enhancing its financial performance.

Weakness

Inability to Manage Cost Overruns of Major Program

Unresolved problems related to major programs such as F-35 Lightning II Joint Strike Fighter and F-22 Raptor may affect the company business operations. These programs have become expensive due to cost overruns. The US government has already reduced its order size for other military aircraft in the past due to cost overruns. For instance, the government initially wanted to procure 648 F-22 fighter jets at US\$149 million per plane but it ended up buying only 188 aircraft at a price of US\$412 million per aircraft. The US government also has plans to procure 2,443 F-35 Lightning II fleet variants for the Air Force, Marine and Navy. If the company fails to contain program costs, it may lead to reduction in the order size for F-35 aircraft from the US and allies governments. Such technical glitches could increase the overall cost of the program, which would result in early closure of the program.

Opportunity

Growing Global Defense Spending

Growing global defense spending could provide new avenues to the company to prosper. According to the Stockholm International Peace Research Institute (SIPRI), the total global military spending increase by 1% in real terms to US\$1,676 billion in 2015 over the previous year. The total global military spending was equivalent to 2.3% of the global GDP. This could primarily be attributed to 5.4% rise in defense spending in Asia and Oceania, 1.7% increase in spending in Europe. LM Aero manufactures and provides solutions for advanced military aircraft including air mobility, combat, and reconnaissance and surveillance aircraft. It supports various programs such as C-130J Super Hercules, F-16 Fighting Falcon, F-22 Raptor, T-50 Golden Eagle, C-5M Super Galaxy, F-2, F35 Lightning II, P-3 Orion and U-2 Dragon Lady, among others to military services and agencies of the US Government. Therefore, positive outlook for the defense spending could improve the company's financial performance.

Rising Demand for Unmanned Aerial Vehicles

Military demand for UAVs is expected to grow in the future. According to the Aerospace Industries Association, the daily military flights in the US are projected to increase by 50% from 60-65 daily in 2015

to 90 daily in 2019. The US is expected to spend US\$19.6 billion on UAV research and development by 2024, and its defense procurement is projected to reach US\$25 billion during the same period. The military UAV sector worldwide is forecast to grow by 79% by 2024. Globally, civil UAV production is also expected to increase from US\$3.5 million in 2015 to US\$302 million in 2023. Overall, UAV technology is expected to attract an investment of over US\$89 billion during the same period. As LM Aero a provider of unmanned air vehicles and related technology and services, growing demand for UAVs is likely to enhance the company's revenue.

Focus to Strengthen the US Homeland Security

The company stands to benefit from increasing homeland security (HLS) spending in the US. Threat from terrorism continued to be the most important driver for the HLS spending. According to the US Department of Homeland Security report, the budget for HLS in 2015 was US\$38.2 million. In 2016 budget proposal, US\$41.2 million has been requested for the HLS, which reflects the US' continued focus on preventing terrorism and enhancing security. LM Aero is one of the major contractors of US Department of Homeland Security. Therefore, increased spending on homeland security could boost the sales of the company's products and services.

Threat

Changing Technology

The company operates in a highly competitive market that is subject to rapid technological changes. Introduction of products using new technologies or the adoption of new industry standards will make existing products or products under development obsolete or unmarketable. In this scenario, to compete effectively, the company has to continuously innovate and introduce new products that gain market acceptance. Unless the company understands the customers' requirements and adapts to emerging technologies in the market and introduces new products and solutions, its business could be affected.

Reduction in the US Defense Budget

Declining defense expenditure of the US could affect the company's financial performance. According to the Stockholm International Peace Research Institute (SIPRI), the US defense spending decreased by 2.4% to US\$596 billion in 2015 over the previous year. This could be attributed to the implementation of budget sequestration due to increasing deficit spending and continued economic challenges. As part of the Budget Control Act of 2011, the US government decided to reduce the Department of Defense (DoD) expenditure by US\$487 billion during 2012-2021, indicating a reduction of 9% over the next decade. This could reduce weapon procurement and minimize new works awarded to the largest federal contractors such as LM Aero, as it mainly works on the US DoD's major defense programs.

Government Contract Compliance and Regulations

The government contracts of the company are subject to several intricate procurement laws and

regulations, apart from the routine audits of contract pricing. The results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which may be fines, penalties, repayments, or compensatory or treble damages, affecting its financial performance. According to the statistics of the Project on Government Oversight (POGO), the company's parent company, Lockheed Martin Corporation paid US\$606 million as fines and penalties for 59 instances of contract misconduct (the highest among all federal contractors) such as contract fraud and violating labor and environmental laws, and ethics, since 1995. Such instances could affect Lockheed Martin's LM Aero's business operations.

TOP COMPETITORS

The following companies are the major competitors of Lockheed Martin Aeronautics Company

Airbus Defence and Space Espana
Honeywell Aerospace
Northrop Grumman Aerospace Systems
The Boeing Company

LOCATIONS AND SUBSIDIARIES

Head Office

Lockheed Martin Aeronautics Company
1 Lockheed Boulevard
Fort Worth
Texas
Fort Worth
Texas
USA
Phone: 1 817 7772000
www.lockheedmartin.com/us/aeronautics.html

Other Locations and Subsidiaries

Lockheed Martin Aeronautics Company Clarksburg Plant Clarksburg West Virginia Clarksburg West Virginia USA	Lockheed Martin Aeronautics Company Lockheed Martin AeroParts, Inc. (LMAPI) Johnstown Pennsylvania Johnstown Pennsylvania USA
Lockheed Martin Aeronautics Company Meridian Facility Meridian Mississippi Meridian Mississippi USA	Lockheed Martin Aeronautics Company Tampa Bay area Pinellas Park Florida Pinellas Park Florida USA
Lockheed Martin Aeronautics Company The Greenville, South Carolina facility Greenville South Carolina Greenville South Carolina USA	Lockheed Martin Aeronautics Company The Palmdale California site Palmdale California Palmdale California USA

